

Message Text

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ACTION EA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-01 INR-05 L-01

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 SAJ-01 NIC-01 SAM-01 NSCE-00 AID-05 COME-00

EB-04 FRB-01 TRSE-00 XMB-02 OPIC-06 CIEP-01 LAB-01

SIL-01 OMB-01 STR-01 CEA-01 AGR-05 SWF-01 FEA-01

INT-05 EUR-08 SCI-02 DRC-01 /102 W
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R 180505Z OCT 74

FM USLO PEKING

TO SECSTATE WASHDC 2564

INFO AMEMBASSY TAIPEI

AMEMBASSY TOKYO

AMCONSUL HONG KONG

AMEMBASSY CANBERRA

AMEMBASSY WELLINGTON

CINCPAC

C O N F I D E N T I A L PEKING 1801

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: ETRD, CH

SUBJECT: EVIDENCE THAT PRC IS TRYING TO HOLD DOWN IMPORTS
DUE TO FOREIGN EXCHANGE CONSTRAINTS

REF: PEKING 1794 (NOTAL)

SUMMARY: COMMENTS BY FOREIGN TRADE MINISTER LI CH'ING,
REDUCTIONS AND POSTPONEMENTS IN PRC AGRICULTURAL COMMODITIES IMPORTS,
AND RECENT PURCHASING BEHAVIOUR POINT TO A CURRENT CHINESE POLICY
OF HOLDING DOWN IMPORTS IN THE SHORT TERM IN ORDER TO REDUCE
CHINA'S BURGEONING TRADE DEFICIT. THE PATTERN IS NOT ENTIRELY
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CINSISTANT, HOWEVER, AS EVIDENCED BY THE FACT THAT TWO US FIRMS

ARE CURRENTLY INVOLVED IN NEGOTIATIONS FOR THE SUPPLY OF A NEW WHOLE PLANT TO CHINA. END SUMMARY.

1. NEW ZEALAND AMBASSADOR HARLAND HAS TOLD US SUBSTANCE OF BRIEF CONVERSATION AT AIRPORT CEREMONY HE RECENTLY HAD WITH PRC FOREIGN TRADE MINISTER LI CH'ANG, IN WHICH LI INDICATED THAT CHINA IS CONSCIOUSLY TRYING TO HOLD DOWN IMPORTS AT THE MOMENT DUE TO FOREIGN EXCHANGE LIMITATIONS.

2. CONVERSATION BEGAN WHEN LI ASKED HARLAND IF NEW ZEALAND IS SUFFERING FROM EFFECTS OF CURRENT WORLD OIL CRISIS. AFTER ANSWERING LI'S QUESTION TO EFFECT THAT IMPACT COULD NOT YET BE MEASURED, HARLAND COUNTERED BY ASKING WHY CHINA DOES NOT BUY MORE NEW ZEALAND EXPORT PRODUCTS, SPECIALLY MENTIONING WOOL, TIMBER AND WHEAT (WE BELIEVE HARLAND MAY ALSO HAVE HAD IN MIND AUSTRALIAN EXPORTS AS REGARDS THE LATTER COMMODITY). LI RESPONDED THAT THE CURRENT INTERNATIONAL ECONOMIC SITUATION IS HURTING CHINA, AND THAT IT IS HARD FOR THE PRC TO IMPORT MANY PRODUCTS AT THIS TIME. THE PRICES OF A NUMBER OF ESSENTIAL COMMODITIES HAVE RISEN SHARPLY, LI SAID, CITING FERTILIZER AS AN EXAMPLE, WHILE AT THE SAME TIME MARKETS FOR MANY PRC GOODS HAVE WEAKENED. REFERRING TO WOOLENS, LI ASKED WHAT WOULD BE THE USE OF IMPORTING MORE WOOL NOW, SINCE EXPORT MARKETS FOR WOOLEN TEXTILES ARE POOR AT THE MOMENT. OF CHINA'S MAJOR EXPORT PRODUCTS, HE WENT ON, ONLY RICE AND OIL PRESENTLY HAVE GOOD MARKET POTENTIAL. IN ESSENCE, LI SAID, CHINA IS FACED WITH A SITUATION IN WHICH IT MUST SPEND MORE FOR IMPORTS THAN IT CAN EARN THROUGH EXPORTS AND THAT IT IS MAKING AN EFFORT TO HOLD DOWN THE RESULTANT DEFICIT BY REDUCTING PURCHASES OF SOME COMMODITIES.

3. LI'S COMMENTS TEND TO CONFIRM THE SUSPICIONS OF MANY PEKING DIPLOMATIC PERSONNEL THAT THE PRC IS TEMPORARILY FACING A HARD CURRENCY SHORTAGE, DESPITE ESTIMATED HIGH RESERVES WHICH THE CHINESE MAY NOT WISH TO DRAW DOWN AT THIS TIME, AND THAT THIS IS A CONTRIBUTING FACTOR IN THE PAST SUMMER'S LULL IN IMPORT NEGOTIATIONS FOR A NEW WHOLE PLANT AND CAPITAL EQUIPMENT. THE MINISTER'S REMARKS (TAKEN TOGETHER WITH GOOD HARVEST PROSPECTS) ALSO TEND TO EXPLAIN RECENT CHINESE DECISIONS TO CANCEL OR DEFER UNTIL NEXT YEAR \$250-300 MILLION OF US SOYBEAN AND WHEAT
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DELIVERIES ORIGINALLY SCHEDULED FOR 1974 AS WELL AS THE CHINESE DECISION TO POSTPONE THEIR ANNUAL NEGOTIATIONS WITH THE AUSTRALIAN WHEATBOARD (AWB). (WE HAVE NOW LEARNED THAT THE VISIT OF AN AWB MISSION TO PEKING WILL NOT TAKE PLACE UNTIL FEBRUARY -APRIL NEXT YEAR.) LI'S COMMENTS ARE ALSO CONSISTENT WITH A STATEMENT IN A RECENT "PEOPLE'S DAILY" ARTICLE ON TRADE POLICY THAT IMPLIES THAT IMPORTS WILL GROW BUT ONLY SO LONG AS EXPORTS CONTINUE TO EXPAND (REFTEL, PARA 5).

4. ALSO SUPPORTING THE THEORY THAT PRC TRADE AUTHORITIES ARE HOLDING DOWN THEIR BUYING IS THE RECENT EXPERIENCE OF A US OIL EQUIPMENT DEALER, BAKER TRADING WHICH HAS JUST CONCLUDED EIGHT WEEKS OF CONTRACT TALKS IN PEKING. ACCORDING TO J. RAY PACE, LEADER OF THE BAKER TEAM, TOTAL SALES DURING HIS VISIT AMOUNTED TO ONLY \$2-3 MILLION, CONSIDERABLY LESS THAN HE HAD ORIGINALLY HOPED. THROUGHOUT HIS TALKS WITH THE CHINA NATIONAL MACHINERY IMPORT AND EXPORT CORPORATION (MACHIMPEX), MACHIMPEX OFFICIALS EMPHASIZED TO PACE THAT FOR THE MOMENT THEIR PURCHASING FUNDS ARE LIMITED AND THAT THEY COULD ONLY PLACE SMALL INITIAL ORDERS AT THIS TIME. MOREOVER PACE SAID, THE CHINESE SEEMD IN NO HURRY TO TAKE DELIVERY ON THE ITEMS THEY DID BUY, FURTHER INDICATING A POSSIBLE DESIRE TO HOLD DOWN IMPORTS IN THE SHORT TERM.

5. NOTWITHSTANDING THE FOREGOING, WE HAVE LEARNED THAT ONE NEW WHOLE PLANT NEGOTIATION IS UNDERWAY, INVOLVING AT LEAST TWO US SUPPLIERS OF TECHNOLOGY. THIS AND FURTHER INFORMATION ON THE BAKER TRADING TRANSACTIONS WILL BE REPORTED SEPTTEL. HOLDRIDGE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, IMPORT CONTROLS, FOREIGN EXCHANGE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 OCT 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: shawdg
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974PEKING01801
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D740296-1093
From: PEKING
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19741035/aaaabdv.tel
Line Count: 136
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: PEKING 1794 (NOTAL)
Review Action: RELEASED, APPROVED
Review Authority: shawdg
Review Comment: n/a
Review Content Flags:
Review Date: 09 JUL 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 JUL 2002 by boyleja>; APPROVED <19 MAR 2003 by shawdg>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: EVIDENCE THAT PRC IS TRYING TO HOLD DOWN IMPORTS DUE TO FOREIGN EXCHANGE CONSTRAINTS
TAGS: ETRD, CH
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005